National
Tea
Co.

Annual
Report
1974

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National Tea

NATIONAL TEA CO.

9701 W. Higgins Road
Rosemont, Ill. 60018

Notice of Annual Meeting of Shareholders to be Held April 22, 1975

To the Shareholders of National Tea Co.:

The Annual Meeting of Shareholders of **NATIONAL TEA CO.** will be held at Hyatt Regency Chicago, 151 E. Wacker Drive, Chicago, Illinois 60601, in the Regency A Ballroom, on Tuesday, April 22, 1975, at 10:00 A.M. for the following purposes:

1. To elect a Board of nine Directors.
2. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Only holders of record of the Company's Common Shares at the close of business on March 14, 1975, will be entitled to vote at the meeting. If you do not expect to attend the meeting, please date, sign and mail promptly the enclosed Proxy in order that a quorum may be present at the meeting and that your shares may be voted for you.

By order of the Board of Directors.

BENNETT I. BERMAN
Secretary

April 8, 1975

NATIONAL TEA CO.

9701 W. Higgins Road
Rosemont, Ill. 60018

Proxy Statement

1. The Annual Meeting of Shareholders.

The Annual Meeting of Shareholders of National Tea Co. (the Company) will be held April 22, 1975, for the purpose set forth in the accompanying Notice. The only matter which the management of the Company intends to present to shareholders is that stated in item 1 of such notice. Should any other matters properly come before the Annual Meeting it is the intention of the proxies named in the enclosed Proxy to act upon them according to their best judgment. This Proxy Statement and the enclosed Form of Proxy are being mailed to shareholders on or about April 8, 1975.

2. Voting Rights and Proxy.

The voting securities of the Company which were outstanding as of March 14, 1975, consisted of 7,846,656 Common Shares, par value $4 per share. In the election of directors, each shareholder has as many votes as equals the number of directors to be elected (nine) multiplied by the number of his shares and has the right to vote for as many persons as there are directors to be elected or to cumulate such votes and cast all of them for one candidate or to distribute them among as many candidates as he shall select. March 14, 1975, has been fixed as the record date for determining shareholders entitled to notice of and to vote at the meeting.

The enclosed Proxy is solicited by the management. If the Proxy in such form is properly executed and returned, the Common Shares represented thereby will be voted at the meeting. The Proxy, if given, may be revoked by the shareholder executing it at any time prior to its being voted.

Based upon information supplied to the Company by a representative of the Weston Family, the relationship of Mr. W. Garfield Weston and Mr. W. Galen Weston to the Company is set forth in the following diagram. The percentage figures indicate the percentage of outstanding voting capital stock of the company controlled by that company immediately preceding such a percentage figure.

W. GARFIELD WESTON CHARITABLE FOUNDATION(1)(2)(8)
84.00%

WITTINGTON INVESTMENTS LIMITED(1)(2)(3)(9)
51.50%

GEORGE WESTON LIMITED(1)(2)(3)(5)(6)(7)(10)
69.76%

LOBLAW COMPANIES LIMITED(2)(3)(4)(5)(6)(11)
56.72% (4,450,679 shares)

NATIONAL TEA CO.

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(1) Mr. W. Garfield Weston is a director and officer.
(2) Mr. W. Galen Weston is a director and officer.
(3) Mr. George C. Metcalf is a director or officer and director.
(4) Mr. W. Struan Robertson is a director and officer.
(5) Mr. Richard J. Currie is a director and officer.
(6) Mr. David A. Nichol is a director and officer.

(7) Mr. James A. Watson is a director and officer.

(8) The W. Garfield Weston Charitable Foundation also owns directly 4.52% of the outstanding voting stock of George Weston Limited and 0.24% of the outstanding voting stock of Loblaw Companies Limited.

(9) Wittington Investments Limited also owns directly 3.79% of the outstanding voting stock of Loblaw Companies Limited and 2.55% of the outstanding voting stock of National Tea Co.

(10) The interest of George Weston Limited in the outstanding voting shares of Loblaw Companies Limited is partly held directly (as to 1,708,870 shares) and partly through Perrin Investments Limited, a wholly owned subsidiary (as to 3,847,200 shares).

(11) The interest of Loblaw Companies Limited in the shares of National Tea Co. is partly held directly (as to 263,163 shares) and partly through Loblaws Limited (a 99.25% subsidiary) and its wholly owned subsidiaries, Glenmaple Holdings Limited and Glenmaple Overseas N.V. (as to 4,187,516 shares). Three million (3,000,000) National Tea Co. Common Shares owned by Glenmaple Overseas N.V. have been pledged as security for a loan with the Canadian Imperial Bank of Commerce.

3. Nominees for Directors.

Nine Directors are to be elected to serve for one year and until their successors are elected and qualified. It is intended that the Proxy, if given, will, unless it is otherwise specified thereon, be voted for the persons named below. The following information with respect to the said nominees has been furnished to the Company by the respective nominees:

Name	Principal Occupation	Commencement of Period of Service as Director	Common Shares Owned as of March 14, 1975 (2) (3)
Richard J. Currie	Senior Vice President, George Weston Limited (manufacturer and distributor of food and forest products); Executive Vice President, Loblaw Companies Limited (wholesale and retail grocery business).	1973	100
Sheldon V. Durtsche	Vice President Control and Treasurer, National Tea Co., 1974-present; Vice President Control, National Tea Co., 1973-74; Assistant Comptroller, Gamble-Skogmo, Inc. (retailing and wholesaling, general merchandising and mail order), 1971-73; Comptroller, Red Owl Stores, Inc. (retail food store operator and wholesaler), 1969-71.	Nominee	1,200
Hugo Mann	Chairman and Managing Director, Deutscher Supermarkts, GmbH (Federal Republic of Germany) (retail food business), since prior to 1970.(1)	Nominee	None
George C. Metcalf	Vice President, George Weston Limited; Chairman of the Board, Loblaw Companies Limited; Vice Chairman of the Board of National Tea Co.	1956	None
David A. Nichol	Senior Vice President, George Weston Limited: Executive Vice President, Loblaw Companies Limited.	1973	2,500
W. Struan Robertson	Partner, Borden & Elliot, Attorneys.	1965	500
Valdyn W. Schulz	Executive Vice President, National Tea Co., 1974; Vice President, National Tea Co., 1973-74; Vice President, Red Owl Stores, Inc., 1970-72.	Nominee	600

Name	Principal Occupation	Commencement of Period of Service as Director	Common Shares Owned as of March 14, 1975(2)(3)
James A. Watson	President and Chief Executive Officer, National Tea Co.; Vice President of George Weston Limited.	1974	2,300
W. Galen Weston	Chairman of the Board and Managing Director, George Weston Limited; President and Chief Executive Officer, Loblaw Companies Limited; Chairman of the Board of National Tea Co.	1972	2,000

(1) Controlled by a United Kingdom charitable foundation under the same control as the W. Garfield Weston Charitable Foundation.

(2) In addition, equity securities of George Weston Limited were beneficially owned by nominees as follows: Mr. Currie, 100 Common shares; Mr. Metcalf, 200,081 Common shares; Mr. Nichol, 100 Common shares; Mr. Watson, 50 Common shares and 2,500 cumulative redeemable convertible preferred shares, 7th Series; Mr. Weston, 88,775 Common shares and 20,000 cumulative redeemable convertible preferred shares, 6th Series; and equity securities of Loblaw Companies Limited were beneficially owned by nominees as follows: Mr. Currie, 100 Series B shares; Mr. Metcalf, 2,100 Series A shares and 16,003 Series B shares; Mr. Nichol, 1,500 Series A shares; Mr. Weston, 47,100 Series A shares and 92,900 Series B shares.

(3) In connection with the proposed tender offer referred to in Part 7 hereof, Messrs. Nichol, Robertson, Schulz, Watson and Weston have each indicated that he is presently considering tendering all but 100 of the Common Shares owned by him.

In case any of the above-named nominees is not a candidate at the meeting, an event which the management does not anticipate, it is intended that the enclosed Proxy, if given, may be voted for a substitute nominee and will be voted for the other nominees above named.

4. Remuneration and Other Transactions of Directors and Officers.

Furnished below is information with respect to all direct remuneration paid by the Company and its subsidiaries for the fiscal year ended December 28, 1974, for services in all capacities to each director of the Company whose aggregate direct remuneration exceeded $40,000 and each of the three highest paid officers of the Company whose aggregate direct remuneration exceeded that amount and to all directors and officers as a group who were directors or officers at any time during such fiscal year, while they held such positions.

Name of Individual or Number of Persons in Group	Capacities in Which Remuneration Was Received	Aggregate Direct Remuneration(a)	Payments Under 1974 Bonus Plan(a)	Estimated Annual Benefits Upon Retirement(b)
James A. Watson	Director and President(c)	$ 159,000	$ 55,650	$22,161
V. W. Schulz	Executive Vice President(c)	$ 71,692	$ 33,250	$27,927
J. E. Gottlieb	Vice President and Secretary(d)	$ 82,000	$ 28,700	
Directors and Officers as a Group(23)	Directors and Officers(c)	$1,152,086	$330,786	

(a) Aggregate Direct Remuneration excludes amounts accrued under the Company's 1974 bonus plan, which were paid during fiscal 1975. The Company has adopted a bonus plan for 1975 which includes officers and which establishes performance objectives for the Company at various levels. The amount of bonus earned by officers is corollated to the Company's pre-tax earnings and to salary levels.

(b) Effective January 1, 1975, the Company adopted a Group Pension Plan to provide retirement benefits for salaried and office clerical employees. Payments to participants are to be made on an actuarial basis with fixed pension benefits on retirement at specified ages determined by compensation and years of service in the retail food industry. The above amounts assume continuation of employment at current salary levels until normal retirement at age 65.

(c) The Company has assumed an agreement between George Weston Limited and Mr. Watson whereby Mr. Watson will be employed to March 31, 1978 at a minimum annual salary of $150,000 (subject to cancellation by either party on ninety days' notice with certain exceptions) and may receive deferred compensation for a maximum period of five years with a maximum annual benefit of $90,000. In addition, Mr. Watson's home is owned by the Company and rented to him on a month-to-month basis at an annual rental of $15,000, which the Company believes to be the fair rental value of the property. Mr. Schulz is employed pursuant to an agreement with the Company extending through August, 1976, and providing for a minimum annual salary of $65,000, a bonus of up to 35% of his salary with a $20,000 annual minimum through April, 1975, and deferred compensation of $8,000 upon retirement or termination. Two other officers also have employment agreements with the Company, one providing for annual compensation of not less than $45,000 currently, increasing to an annual rate of $50,000 from May, 1975, through October, 1976, and the other providing for annual compensation through September, 1976, of not less than $55,000 with deferred compensation for five years following termination at an annual rate of up to $33,000 and one year's severance pay in the event of termination by the Company. An additional officer is employed as an officer of the Company under an agreement with George Weston Limited and Loblaw Companies Limited, providing for an annual salary of not less than $55,000 through August, 1976, and a guaranteed annual bonus of $20,000 through April, 1975.

(d) Mr. Gottlieb died on January 28, 1975.

There were no contributions during 1974 to the Company's Profit Sharing Trust by the Company or participating subsidiaries. Aggregate contributions to the Profit Sharing Trust from prior years amounted to $72,103 for directors and officers as a group.

During the fiscal year ended December 28, 1974, the Company purchased in the ordinary course of business approximately $4,365,000 of products from subsidiaries of George Weston Limited. Management believes the prices charged the Company for those products were competitive and no higher than charged to any other customer.

In March, 1974, Loblaw Companies Limited and a subsidiary guaranteed all present and future obligations of the Company under a $10,000,000 equipment lease. In April, 1974, Loblaw Companies Limited guaranteed payment of all amounts to become payable by the Company under a $39,000,000 term loan agreement between the Company and a group of banks. In addition, Loblaws Limited holds $17,000,000 (Canadian) of the Company's 10% Subordinated Notes due 1979, which it purchased at face value from the Company during fiscal 1973. Negotiations are contemplated regarding the possibility of prepayment by the Company of these Subordinated Notes (which would require the consent of the banks under the term loan agreement); if these Subordinated Notes are prepaid, such funds will be used to replenish the general funds of Loblaws Limited. Loblaw Companies Limited may use the general funds of Loblaws Limited in the proposed tender offer referred to under Part 7 hereof.

Land was purchased during 1973 by the Company for $1,867,439 and later resold at cost to Hodgkins Properties, Inc. ("Hodgkins"), a subsidiary of George Weston Inc., which is constructing a warehouse complex thereon at an estimated total cost (including land) of approximately $28,300,000. George Weston Inc. is a subsidiary of George Weston Limited, which is guaranteeing certain obligations of Hodgkins in connection with the financing of this project. The Company has agreed that, upon completion of the development, it will sublease the property from George Weston Inc. which will lease it from Hodgkins. The Company has also agreed to bear any excess of the final

cost of the project over $28,300,000. While the amount of any such excess has not been determined, it is estimated not to exceed $800,000. This transaction was entered into because Hodgkins, supported by the guarantee of George Weston Limited, was able to obtain more favorable financing terms from lenders than the Company could have obtained and because of certain restrictions in the Company's debt agreements. Under the terms of the above term loan agreement, the Company's lease (which has not yet been entered into) must provide that it is terminable without penalty by the Company on 12 months' notice, that rentals must be fixed in such a fair and reasonable amount as would result from arm's length negotiations and that all rentals falling due after the occurrence of an event of default under such term loan agreement must be subordinated to the prior payment of such loan (including interest). The Company's rent is expected to be approximately $259,000 per month, or approximately $2,000 per month in excess of the amount required by Hodgkins for monthly payment of the principal and interest due under the 30-year mortgage obtained by Hodgkins to finance this transaction. On September 23, 1974, Interbake Inc., a subsidiary of George Weston Limited, loaned $1,500,000 to the Company with interest at 13.2%, to assist the Company in financing the project prior to its sale to Hodgkins. This loan was paid in full prior to December 28, 1974. The Company has made advances to Hodgkins in connection with the construction of the distribution center, bearing interest at the prime rate as in effect from time to time. The maximum aggregate amount of such advances outstanding at any one time to February 22, 1975, was approximately $16,400,000, of which approximately $4,390,000 remained outstanding on that date. It is expected that these advances will be repaid during 1975.

James A. Watson and J. E. Gottlieb, prior to their association with the Company and with the knowledge of its Board of Directors at the time of their employment, each owned a 45% interest in Gottlieb & Associates, Inc., a company whose principal assets consisted of a contract to purchase a shopping center site in Rhinelander, Wisconsin, for the sum of $150,000.00, plus 7½% interest, and a 95% interest in certain contracts to purchase a shopping center site in Forest Lake, Minnesota, for a total sum of $132,950.00, plus interest ranging from 7% to 8%. An agreement has been reached with the approval of the Board of Directors of the Company whereby all of the interests of Gottlieb & Associates, Inc. in these contracts have been assigned to the Company and the Company has assumed the foregoing obligations of Gottlieb & Associates, Inc. under said purchase contracts and will reimburse Gottlieb & Associates, Inc. for all costs incurred in connection therewith (approximately $68,000.00). In the opinion of the Board of Directors of the Company, the obligations assumed and costs reimbursed by the Company are the fair market value of the property being obtained by the Company.

5. Independent Accountants and Audit Committee.

Arthur Andersen & Co. is the Company's independent accountants and auditor. They have audited the books and accounts of the Company since 1945, including the most recently completed fiscal year. Representatives of the firm are expected to be present at the shareholders' meeting and they will have the opportunity to make a statement if they desire to do so, and they are also expected to be available to respond to appropriate questions. The Board of Directors of the Company has recently appointed Mr. W. Struan Robertson and Mr. Richard J. Currie as an audit committee.

6. Solicitation Cost.

The cost of preparing and mailing this Proxy Statement, the Notice attached thereto and the form of Proxy which is submitted herewith will be borne by the Company. The Company upon request will reimburse persons holding Common Shares in their names, or the names of their nominees, for the benefit of others for expenses in forwarding proxies and accompanying material to their principals, and will reimburse brokers in accordance with rates approved by the New York Stock Exchange for their expenses in similarly soliciting such of their customers as are beneficial owners of such shares. Solicitation other than by mail may be made but, if made, it will be made at a nominal cost and by directors, officers and regular employees of the Company.

7. Proposed Tender Offer.

Loblaw Companies Limited has announced its intention to make a tender offer for 1,830,000 additional Common Shares of the Company with an option to purchase up to an aggregate of 2,000,000 Common Shares if necessary to avoid proration. If 2,000,000 shares are purchased pursuant to this tender offer the number of Common Shares of the Company owned by Loblaw Companies Limited and its affiliates would be increased to approximately 6,650,000 Common Shares, or approximately 85% of the Company's outstanding Common Shares.

OUR 1975 ANNUAL REPORT ON FORM 10-K IS TO BE DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. SHAREHOLDERS MAY OBTAIN A COPY OF THE FORM 10-K, WITHOUT CHARGE, UPON WRITTEN REQUEST TO BENNETT I. BERMAN, SECRETARY OF THE COMPANY, 9701 W. HIGGINS ROAD, ROSEMONT, ILL. 60018.

By order of the Board of Directors.

BENNETT I. BERMAN
Secretary

April 8, 1975

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NATIONAL TEA is a major U.S. food retailing chain operating seven major distribution facilities and approximately 500 supermarkets averaging 18,000 square feet in Chicago, New Orleans, St. Louis, Indianapolis, Milwaukee, Minneapolis, Denver and Davenport, Iowa.

Annual meeting will be held at Hyatt Regency Chicago,
151 E. Wacker Drive, Chicago, Illinois 60601, in the
Regency A Ballroom, on Tuesday, April 22, 1975, at 10:00 A.M.

Report to Shareholders

During 1974 major progress was made in the program initiated in March of 1973 to restructure National Tea.

In this, my first letter to you as president and chief executive officer, I would like to briefly describe some of the major projects implemented during the past year.

Operations

Despite inflationary cost pressures and changing consumer food purchasing habits the severe losses experienced in 1973 were significantly reduced in 1974.

This operating improvement arose from a number of changes.

At the beginning of the year, budgets were set in every division and we are happy to say that every division in the company attained and exceeded their budgeted operating results. In addition to this, our sales base was strengthened, sales per square foot increased, and our remodeling program continued as planned with 106 stores being remodeled and 10 new stores opened. $20.7 million was spent on new and renovated stores during the year in addition to the funds allocated for the new warehouse at Hodgkins.

Our management of cash and inventory was substantially improved in every division and will continue to improve up to or above industry standards.

The Ranch King feed lot, processing and slaughtering operations in Denver, which have been a negative impact on profits for several years, were closed and disposed of in 1974. The company incurred substantial losses on the disposal of the feed cattle due to unfavorable cattle market conditions in 1974.

Employee relations and training programs were improved substantially during the year. A new pension program was adopted on January 1, 1975, which will enable National Tea to attract high quality people at all levels. In addition, an incentive pay plan was installed for managers and administrative executives based on performance. Communications were set up with various consumer groups in every division and an ongoing dialogue continues to improve our customer relations.

The Chicago Division and corporate offices were consolidated in a new office building at Rosemont, Illinois. Major operating efficiencies were achieved in 1974 from the closing of the Milwaukee warehouse and the closing of 53 obsolete stores throughout the company.

Of particular importance was the opening of our new 750,000 square foot warehouse in Hodgkins, Illinois. This enabled us to consolidate five warehouses into one facility handling the distribution of groceries and produce to 200 stores in the Chicago and Milwaukee regions. In 1975 we anticipate this will result in significant operating savings.

Outlook for 1975

During the first quarter of the year we anticipate some disruption of operations

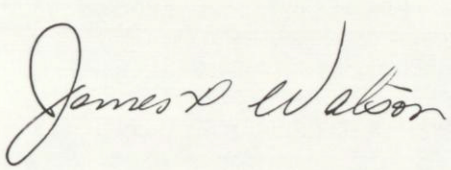
connected with the startup of the new Hodgkins warehouse, but we expect that these problems will be behind us by mid-year. During the latter part of the year we anticipate that our meat distribution center in Chicago will be ready for opening.

National will continue to consolidate and improve its store configuration this year. Our extensive remodeling of stores will continue and 9 new stores will be opened throughout the chain.

During 1975, the programs initiated to increase operating efficiencies will be intensified. As a result, we anticipate that the positive trends established in the vital operating ratios of the business will continue.

Summary

We are proud of the overall accomplishments made during 1974 and deeply appreciate the efforts of the 20,000 loyal National employees who have contributed to our progress. Your management looks for continued improvement during 1975 as we believe that your company is now firmly positioned for a steady return to profitable operations.



Consolidated Balance Sheet

December 28, 1974
with comparative
amounts for December 29, 1973

Assets	1974	1973
Current Assets:		
Cash (Note 2)	**$ 7,881,478**	$ 21,266,934
Marketable securities, at cost	**15,000,000**	—
Receivables—		
Trade (including approximately $2,000,000 due from an affiliate)	**10,236,579**	9,945,133
Income taxes recoverable from loss carrybacks (Note 3)	**1,237,329**	1,654,898
Inventories (Note 1)	**102,005,920**	96,458,011
Prepaid expenses	**3,960,000**	3,977,142
Real estate in process of development and sale	**6,720,047**	3,452,565
Total current assets	**$147,041,353**	$136,754,683
Other Assets (Long-term receivables, miscellaneous investments, etc.)	**$ 3,774,094**	$ 4,456,549
Property and Equipment, at cost (Note 1):		
Land	**$ 2,199,244**	$ 2,161,434
Buildings	**5,755,510**	7,255,876
Fixtures and equipment	**126,430,868**	126,299,265
Reserves for depreciation (including reserve of $1,720,000 at December 28, 1974 and $3,508,000 at December 29, 1973 for loss on disposition of property and equipment)	**(68,291,628)**	(71,317,352)
Leasehold improvements, less accumulated amortization	**24,573,181**	20,103,068
	$ 90,667,175	$ 84,502,291
Cost of subsidiaries at dates of acquisition in excess of book value (Note 1)	**825,411**	825,411
	$ 91,492,586	$ 85,327,702
	$242,308,033	$226,538,934

The accompanying notes are an integral part of this balance sheet.

National Tea Co. and Subsidiaries

Liabilities	1974	1973
Current Liabilities:		
Current maturities of long-term debt	**$ 6,251,210**	$ 1,229,233
Accounts payable	**76,839,051**	56,522,936
Accrued liabilities	**18,046,330**	16,817,443
Income taxes (Notes 1 and 3)	**806,006**	967,350
Total current liabilities	**$101,942,597**	$ 75,536,962
Long-Term Debt (Note 2):		
Bank term loan	**$ 34,000,000**	$ 39,000,000
5% sinking fund debentures, due 1977	**3,480,000**	4,080,000
Installment mortgage notes, maturing from 1975 to 1983	**290,125**	352,309
3½ % subordinated debentures, due 1980	**2,313,000**	2,313,000
10% subordinated notes payable, due 1979	**16,919,400**	16,919,400
Equipment purchase obligations, due from 1975 to 1978	**1,972,796**	3,291,011
Total long-term debt	**$ 58,975,321**	$ 65,955,720
Other Liabilities (Note 5)	**$ 6,473,543**	$ 7,494,893
Shareholders' Investment (Note 2):		
Common shares, $4 par value, authorized 10,000,000 shares; issued 8,756,788 shares	**$ 35,027,152**	$ 35,027,152
Paid-in capital (no transactions during the periods)	**30,823,955**	30,823,955
Retained earnings	**24,041,833**	26,676,620
	$ 89,892,940	$ 92,527,727
Less cost of 910,132 common shares in treasury	**(14,976,368)**	(14,976,368)
	$ 74,916,572	$ 77,551,359
	$242,308,033	$226,538,934

Consolidated Statement of Income and Retained Earnings

	Fifty-Two Weeks Ended December 28, 1974	Thirty-Nine Weeks Ended December 29, 1973
Sales	**$1,403,815,207**	$934,510,867
Costs and Expenses:		
Cost of sales, occupancy, buying and other operating expenses	**$1,190,761,755**	$807,404,523
Selling, general and administrative expenses	**210,023,165**	139,080,846
Interest expense, net	**5,915,074**	3,177,956
Taxes on income (Notes 1 and 3)—		
Currently refundable	**(250,000)**	(535,000)
Deferred	**—**	12,000
	$1,406,449,994	$949,140,325
Loss from continuing operations	**$ (2,634,787)**	$ (14,629,458)
Loss from Sold and Discontinued Operations (Note 4)	**—**	(727,506)
Net loss	**$ (2,634,787)**	$ (15,356,964)
Retained Earnings, beginning of period	**26,676,620**	42,033,584
Retained Earnings, end of period	**$ 24,041,833**	$ 26,676,620
Loss per common share (Note 1):		
Continuing operations	**$ (.34)**	$ (1.87)
Sold and discontinued operations	**—**	(.09)
Net loss	**$ (.34)**	$ (1.96)

The accompanying notes are an integral part of this statement.

Consolidated Statement of Changes in Financial Position

	Fifty-Two Weeks Ended December 28, 1974	Thirty-Nine Weeks Ended December 29, 1973
Working capital provided by:		
Net loss	**$ (2,634,787)**	$ (15,356,964)
Non-cash items not requiring working capital—		
Depreciation and amortization (Note1)	**12,996,251**	9,231,387
Deferred taxes	**—**	12,000
Working capital provided by (used in) operations	**$ 10,361,464**	$ (6,113,577)
Dispositions of property and equipment (Note 1)	**1,604,273**	563,273
Proceeds from 10% subordinated notes (Note 2)	**—**	16,919,400
Proceeds from equipment purchase obligations	**—**	1,773,791
Other, net	**819,725**	1,125,340
Total working capital provided	**$ 12,785,462**	$ 14,268,227
Working capital used for:		
Additions to property and equipment	**$ 20,765,408**	$ 15,469,019
Maturities of long-term debt (Note 2)	**6,980,399**	2,524,545
Maturities of reserve for lease payments on closed stores	**1,158,620**	3,308,714
Total working capital used	**$ 28,904,427**	$ 21,302,278
Decrease in working capital	**$ (16,118,965)**	$ (7,034,051)
Change in working capital represented by:		
Increase (decrease) in current assets—		
Cash	**$ (13,385,456)**	$ 15,400,420
Marketable securities	**15,000,000**	—
Receivables	**(126,123)**	(31,082,870)
Inventories	**5,547,909**	6,468,469
Prepaid expenses	**(17,142)**	(495,664)
Real estate in process of development and sale	**3,267,482**	2,828,874
	$ 10,286,670	$ (6,880,771)
(Increase) decrease in current liabilities—		
Bank loan	**$ —**	$ 4,000,000
Current maturities of long-term debt	**(5,021,977)**	2,823,933
Accounts payable	**(20,316,115)**	(6,062,518)
Accrued liabilities	**(1,228,887)**	(1,018,904)
Income taxes	**161,344**	104,209
	$ (26,405,635)	$ (153,280)
Decrease in working capital	**$ (16,118,965)**	$ (7,034,051)

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements December 28, 1974

1. Summary of Significant Accounting Policies

The following are the significant accounting policies of the company and its subsidiaries:

Principles of consolidation—The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in the accompanying consolidated financial statements.

Inventories—Retail store grocery inventories are stated at the lower of cost or market using the retail method. All other inventories are stated at the lower of average cost or market.

Property and equipment—For financial reporting purposes, fixtures and equipment are depreciated by the companies using the straight-line composite method, at rates which will amortize the cost of these assets over their estimated useful lives; buildings are depreciated at straight-line rates over their estimated useful lives; leasehold improvements are amortized at straight-line rates over their estimated useful lives or the term of the lease, whichever is less. For tax purposes, accelerated methods have been used for fixtures and equipment. Any gain or loss from the sale or other disposal of land and buildings is included in income. No gain or loss is recognized on normal dispositions of fixtures and equipment; the gross asset value is removed from the accounts and any proceeds are credited to the reserve for depreciation. Any gain or loss on major dispositions of fixtures and equipment is included in income.

Cost of subsidiaries at dates of acquisition in excess of book value—The cost of subsidiaries at dates of acquisition in excess of book value relates to businesses acquired in transactions initiated prior to November 1, 1970, and is not being amortized by the company since, in the opinion of management, there has been no reduction in value.

Taxes on income—Taxes on income are provided by the companies based on income reported for financial statement purposes. Deferred income taxes arise principally from the use of accelerated depreciation for income tax purposes. Investment tax credits are reflected as a reduction (flow-through method) of taxes on income to the extent such credits are allowable for income tax purposes.

Store opening costs—Expenditures of a noncapital nature incurred prior to the opening of a new store are charged to expense at the time the store is opened.

Earnings per share—Earnings per common share have been computed based upon the weighted average number of shares outstanding.

2. Long-Term Debt

The bank term loan is secured by an agreement which requires repayments from 1975 to 1979 and contains certain covenants which restrict, among other things, the company's payment of cash dividends and acquisition of its capital stock to earnings subsequent to April 3, 1971; accordingly, the company may not pay dividends or reacquire its capital stock until retained earnings exceed $78,174,019. In addition, the agreement requires that the company maintain consolidated working capital of not less than $40,000,000 and shareholders' equity plus subordinated debt of not less than $89,000,000. Additionally, the company has informal agreements with the participating banks under which it is required to maintain compensating balances on deposit with the banks ranging from 10% to 20% of the outstanding loan balance; the compensating balance requirement at December 28, 1974, was approximately $6,500,000. The bank term loan is guaranteed by Loblaw Companies Limited, which indirectly owns 57% of the company's common shares.

The interest rate on the term loan is ½ % over the prime rate and varies with the prime rate; the interest rate on the loan at February 21, 1975, was 9¼ %. The interest rates on the equipment purchase obligations are ¾% and 1½ % over the prime rate and vary with the prime rate.

The 10% subordinated notes due 1979, are subordinate to the bank term loan and are payable to Loblaws Limited.

Aggregate maturities and sinking fund requirements under long-term agreements, exclusive of minor installments due on store building mortgage loans, are $6,251,000 in 1975, $11,800,000 in 1976, $13,504,000 in 1977, $10,148,000 in 1978 and $20,919,000 in 1979.

3. Taxes on Income

Income tax benefits applicable to the companies' operating losses are based on amounts refundable from loss

carryback claims and appropriate adjustments of the deferred income tax account. Total tax benefits recorded in the fifty-two weeks ended December 28, 1974, and the thirty-nine weeks ended December 29, 1973, were $250,000 and $523,000 respectively, compared with $1,385,000 and $7,622,000 computed by applying the U.S. Federal income tax rate of 48% to the losses before taxes. The reconciliation of these differences is as follows:

	Fifty-Two Weeks Ended December 28, 1974	Thirty-Nine Weeks Ended December 29, 1973
"Expected" tax benefits	$1,385,000	$7,622,000
Increase (reduction) in tax benefit resulting from:		
Tax effect of operating losses of $2,885,000 for the fifty-two weeks ended December 28, 1974, and $15,428,000 for the thirty-nine weeks ended December 29, 1973, which cannot be carried back to prior years	(1,385,000)	(7,405,000)
Tax effect of adjustment of prior years' loss carryback claims resulting from Internal Revenue Service Review	250,000	—
Other, net	—	306,000
Actual tax benefits	$ 250,000	$ 523,000

At December 28, 1974, the companies had approximately $40 million of net operating losses which had not been offset by tax credits to book income. The total amount of net operating losses available to offset future taxable income of the companies is $47 million, the main difference representing the amount (approximately $7 million) that will be used to restore approximately $3.5 million to deferred taxes.

Since various reserves associated with management's store closing program are not currently deductible for Federal tax purposes, the companies' tax loss carry-forward at December 28, 1974, is approximately $35 million, of which $13 million expires December 31, 1977, $13 million expires December 31, 1978, and $9 million expires December 31, 1979. The excess of the book losses over the tax losses will be deducted in future years as the rental payments, etc. covered by the reserves are actually paid.

The companies also have unused investment tax credits of approximately $2,273,000 available to offset future taxes payable. Of this amount, $235,000 expires in 1978, $701,000 expires in 1979, $572,000 expires in 1980 and $765,000 expires in 1981.

4. Loss from Sold and Discontinued Operations

Loss from sold and discontinued operations includes the operations of stores closed prior to lease expiration in 1973 in connection with management's program of closing outmoded and unprofitable operations. Sales of these stores were $30,656,000 in the thirty-nine weeks ended December 29, 1973.

5. Other Liabilities

Other liabilities include:

	December 28, 1974	December 29, 1973
Reserve for future lease obligations on closed stores, net of estimated sub-lease income	$2,045,830	$3,204,450
Capitalized lease obligation	1,873,265	1,929,655
Deferred income taxes	843,000	570,000
Reserve for self-insurance	800,000	800,000
Reserve for deferred compensation	911,448	990,788
	$6,473,543	$7,494,893

6. Lease Commitments

At December 28, 1974, the company and its subsidiaries had 625 non-cancellable leases on stores, warehouses, office space and equipment with terms expiring between 1975 and 2000 and with various renewal options.

For purposes of this note, the company has classified its leases as either "operating leases" or "non-capitalized financing leases" in accordance with the requirements of the Securities and Exchange Commission.

Total rental expense on all leases, both cancellable and non-cancellable, for the fifty-two weeks ended December 28,1974, and the thirty-nine weeks ended December 29, 1973, was as follows:

	Fifty-Two Weeks Ended December 28, 1974	Thirty-Nine Weeks Ended December 29, 1973
	(amounts in thousands)	
Operating leases:		
Minimum rentals, net of minor sublease income	$14,870	$10,715
Contingent rentals	667	402
	$15,537	$11,117
Non-capitalized financing leases:		
Minimum rentals, net of minor sublease income	$ 5,816	$ 4,430
Contingent rentals	107	45
	$ 5,923	$ 4,475
Net rent expense	$21,460	$15,592

Contingent rentals are based on a percentage of sales in certain leased stores.

The following summary shows future minimum annual rental commitments, on all non-cancellable leases in effect at December 28, 1974, which had an initial term of more than one year. Minimum annual rentals from 1975 to 1985 have been reduced by sublease income of approximately 4% of gross rental for operating leases and 2% of gross rental for non-capitalized financing leases.

	Operating Leases	Non-capitalized Financing Leases	Total
	(amounts in thousands)		
1975	$13,178	$ 7,308	$ 20,486
1976	12,545	7,254	19,799
1977	11,340	6,984	18,324
1978	10,200	6,461	16,661
1979	9,165	6,018	15,183
1980 through 1984	30,110	20,045	50,155
1985 through 1989	9,283	9,725	19,008
1990 through 1994	3,011	4,087	7,098
After 1994	389	3,584	3,973
Total commitments	$99,221	$71,466	$170,687

The above tabulation excludes real estate taxes, insurance, maintenance and other costs which are applicable to the properties and which are paid by the companies rather than the lessor.

Approximately $10,000,000 of the companies' lease commitments relate to equipment leases which have been guaranteed by Loblaw Companies Limited.

In addition to the above lease commitments, the company will, upon completion of construction in 1975, enter into a lease on its new Chicago Distribution Center which will be terminable, without penalty to the company, on 12 months' notice; the annual rental of this facility which will be leased from an affiliated company will be approximately $3,000,000. During 1974, the company made interest bearing advances in connection with the construction of this distribution center, and at December 28, 1974, the company had approximately $4,000,000 of such advances outstanding (included in real estate in process of development and sale), which are expected to be reimbursed during 1975.

The present value of future minimum annual rentals under non-capitalized financing leases related to store and warehouse buildings was approximately $29,683,322, net of $657,551 relating to existing subleases, at December 28, 1974, and $34,122,890, net of $762,637 relating to existing subleases, at December 29, 1973. The present value of future minimum annual rentals under non-capitalized financing leases related to fixtures and equipment was $6,542,134 at December 28, 1974. These amounts were calculated by discounting "net" future minimum annual rentals at the estimated interest rates implicit in the individual leases; such rates ranged from 4.5% to 10% in both years with the weighted average being 7.8% at December 28, 1974, and 7.2% at December 29, 1973. "Net" rentals for purposes of these calculations exclude the estimated amounts included in the lease rentals for payment of real estate taxes, insurance, maintenance and other operating costs.

If all of the above "financing" leases were capitalized, the lease rights amortized on a straight-line basis and interest accrued on the basis of the outstanding lease liability, the net loss for the fifty-two weeks ended December 28, 1974, and the thirty-nine weeks ended December 29, 1973, would not have been materially affected.

7. Adoption of Pension Plan

Effective January 1, 1975, the company adopted a group pension plan to provide retirement benefits for salaried and office clerical employees. Total pension expense for the year ending January 3, 1976, is estimated to be $1,000,000, which includes amortization of prior service cost over a 30 year period.

8. Change in Fiscal Year

In 1973, the company changed its fiscal year from the Saturday closest to March 31st of each year to the Saturday closest to December 31st of each year.

9. Settlement of Litigation

The litigation commenced against the company in March, 1974, and referred to in the Contingent Liability note of the December 29, 1973, annual report was dismissed without cost to the company in July, 1974.

10. Events Subsequent to December 28, 1974

A. Grand Jury Investigation

On March 13, 1975 the company was served with a subpoena issued by the United States District Court for the Northern District of Illinois requiring the production before a Grand Jury of information about certain business records of the company for the period March 31, 1968 to December 31, 1973. The company has been informed by the United States Attorney's office for the Northern District of Illinois that the Grand Jury's investigation of allegations of wrongful activity is directed not at the company or any of its present officers and employees but at several former officers and employees of the company in connection with certain company transactions under their control. The investigation has just begun and no further information is available from the United States Attorney's office. The company and its independent public accountants are cooperating with the United States Attorney's office in this investigation.

Subsequently, based on the above, the company and its independent public accountants conducted their own investigation and discovered evidence that certain promotional allowances from several suppliers were recorded in income in 1971, 1972 and 1973 in advance of their being earned by the company. The investigation also revealed evidence that in certain other transactions inflated prices for merchandise were paid to a supplier from 1967 through 1973 in return for (a) payments from the supplier (characterized as discounts and recorded as income) in 1967, and (b) the purchase from the company by the supplier of property in 1969 and a subsidiary in 1971 at inflated prices.

The company's independent public accountants have advised current management that communications from several former company personnel and suppliers during the course of audits for the years in question involved the withholding or misrepresentation of material facts underlying the transactions. While acknowledging that investigations to date support the independent public accountants' position, the company considers it important to note that all parties concerned have not yet been given the opportunity to be heard.

Current management is satisfied and believes, however, that the questioned practices have been ended prior to 1974, and that these transactions have no material effect on the present financial condition of the company.

Although the timing and precise amounts of the adjustments that could be made as a result of the new information on these transactions cannot be determined exactly, these transactions are estimated to have the following approximate effect on prior years' reported results:

	Per Common Share as Previously Reported		Per Common Share Reflecting Estimated Adjustments	
Period Covered	Income (Loss) Before Extraordinary Items	Net Income (Loss)	Income (Loss) Before Extraordinary Items	Net Income (Loss)
Year ended December 31, 1967	$ 1.18	$ 1.37	$ 1.08	$ 1.27
Three months ended March 31, 1968	.25	.25	.25	.25
Year ended March 31				
1969	.97	.92	.97	.92
1970	1.30	1.30	1.33	1.33
1971	1.01	1.01	1.02	.86
1972	1.18	1.18	1.13	1.13
1973	(1.20)	(4.74)	(1.07)	(4.53)
Nine months ended December 29, 1973	(1.96)	(1.96)	(1.90)	(1.90)

B. Tender Offer

On March 17, 1975, Loblaw Companies Limited, which indirectly owns 57% of the company's common shares, announced its intention to make a tender offer for an additional 1,830,000 shares of the company at $7 per share (or up to 2,000,000 shares, if necessary to avoid proration). If the 2,000,000 shares are acquired, Loblaw and its affiliates will own approximately 85% of the company's outstanding shares.

Five Year Review

	FISCAL PERIOD ENDED				
	Apr. 3, 1971* (53 Weeks)	Apr. 1, 1972* (52 Weeks)	Mar. 31, 1973* (52 Weeks)	Dec. 29, 1973* (39 Weeks)	Dec. 28, 1974 (52 Weeks)
	(amounts in thousands except per share data)				
Net Sales	$1,051,060	$1,059,333	$1,054,657	$ 934,511	**$1,403,815**
Cost of Sales and Selling, General and Administrative Expenses	1,037,121	1,044,029	1,061,868	946,485	**1,400,785**
Operating income (loss)	$ 13,939	$ 15,304	$ (7,211)	$ (11,974)	**$ 3,030**
Interest Expense, net	3,081	2,624	2,705	3,178	**5,915**
Income (loss) before income taxes	$ 10,858	$ 12,680	$ (9,916)	$ (15,152)	**$ (2,885)**
Taxes on Income-Payable/ (Refundable)	5,144	4,791	(5,501)	(523)	**(250)**
Income (loss) from continuing operations	$ 5,714	$ 7,889	$ (4,415)	$ (14,629)	**$ (2,635)**
Sold and Discontinued Operations:					
Income (loss)	$ 4,999	$ 1,939	$ (8,377)	$ (728)	**$ —**
Taxes on income-payable/(refundable)	3,077	908	(3,698)	—	**—**
Income (loss) from sold and discontinued operations	$ 1,922	$ 1,031	$ (4,679)	$ (728)	**$ —**
Income (loss) before extraordinary items	$ 7,636	$ 8,920	$ (9,094)	$ (15,357)	**$ (2,635)**
Extraordinary Items	—	—	(26,866)	—	**—**
Net income (loss)	$ 7,636	$ 8,920	$ (35,960)	$ (15,357)	**$ (2,635)**
Income (Loss) Per Common Share:					
Continuing operations	$ .76	$1.04	$ (.58)	$(1.87)	**$(.34)**
Discontinued operations	.25	.14	(.62)	(.09)	**—**
Income (loss) before extraordinary items	$1.01	$1.18	$(1.20)	$(1.96)	**$(.34)**
Extraordinary items	—	—	(3.54)	—	**—**
Net income (loss)	$1.01	$1.18	$(4.74)	$(1.96)	**$(.34)**
Cash dividends paid	$ .80	$ .80	$ .40	$ —	**$ —**

*See note 10 to the consolidated financial statements on the preceding page.

Management's Discussion and Analysis of the Five Year Review

Sales—Sales represents a growth of approximately 15% per year for the past two periods and was achieved with 81 fewer stores than that at 3/31/73. Inflation was a major contributor to the sales growth.

Cost of Sales and Selling, General and Administrative Expenses—Prior to the end of 1973, the Company's gross margin had been deteriorating because of governmental price and margin controls, increased consumer resistance to higher prices and intensive competitive attempts to build sales volume; in 1974, these factors were substantially eliminated which resulted in the Company being able to stabilize and somewhat improve its margins. Selling, general and administrative expenses which, prior to late 1973, had been increasing faster than sales were brought into line and reflect the effects of a restructured organization, formalized labor scheduling and control programs and other operating efficiencies.

Operating Income (Loss)— The improvement in operating income for 1974 can be summarized as resulting from stabilized gross margins which in prior years had been deteriorating and from the effects of a restructured organization and improved controls, as noted above.

Interest Expense—Interest expense has increased significantly during the last two periods because of higher interest rates (particularly in 1974) and increased long term borrowings.

Taxes on Income—Payable/(Refundable)—As explained in Note 3 to the consolidated financial statements, income tax benefits applicable to the companies' operating losses are based primarily on amounts refundable from loss carryback claims. The companies have not been able to carryback all of their operating losses and will have to look to the future for the income tax benefits.

Income (Loss) from Sold and Discontinued Operations—Includes for all years presented the Company's equity in the earnings of Loblaw Inc. (71.45% of whose outstanding capital stock was purchased by the Company on March 28, 1969, and sold as of March 31, 1973) and Subsidiaries, the losses of the Pittsburgh/Youngstown Division prior to management's decision (during the fiscal year ended March 31, 1973) to dispose of the operation, and the operations of stores closed prior to lease expiration in connection with management's program (during the 52 weeks ended March 31, 1973 and the 39 weeks ended December 29, 1973) of closing outmoded and unprofitable operations.

Extraordinary Items—The extraordinary loss for the period ended March 31, 1973, includes provision for losses on the disposition of fixtures, equipment and leasehold improvements, and lease obligations, losses on inventory liquidations, severance pay, etc. resulting from the disposal of the Pittsburgh/Youngstown Division and other outmoded and unprofitable stores.

Security Market and Prices

The principal market in which the Company's common stock is traded is The New York Stock Exchange.

The quarterly high and low sales prices at which the Company's shares were traded on The New York Stock Exchange in 1974 and 1973 are as follows:

Common Stock	Fourth	Third	Second	First
1974				
High	3 5/8	4 1/8	4 3/4	5 1/4
Low	2	2 3/8	3 7/8	3
1973				
High	5 1/8	5 3/4	6 1/2	7 7/8
Low	2 7/8	4 3/8	4 3/8	6 1/8

The Company has not paid dividends during the two most recent fiscal years.

Auditors' Report

To the Shareholders of National Tea Co.:

We have examined the consolidated balance sheet of NATIONAL TEA CO. (an Illinois corporation 53% owned by Loblaws Limited) and SUBSIDIARIES as of December 29, 1973, and December 28, 1974, and the related statements of income and retained earnings and changes in financial position for the thirty-nine weeks ended December 29, 1973, and the fifty-two weeks ended December 28, 1974. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of National Tea Co. and Subsidiaries as of December 29, 1973, and December 28, 1974, and the results of their operations and changes in their financial position for the thirty-nine weeks ended December 29, 1973, and the fifty-two weeks ended December 28, 1974, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Chicago, Illinois,
February 21, 1975
(except with respect to the matters discussed in note 10 as to which the date is March 31, 1975).

Directors

W. Galen Weston
Chairman and Managing Director
George Weston Limited
(Manufacturer and Distributor of
Food and Forest Products)
President and Chief Executive Officer
Loblaw Companies Limited
(Wholesale and Retail
Grocery Business)
and Chairman of the Company

W. Garfield Weston
Vice Chairman of the Board and
President
George Weston Limited

George C. Metcalf
Vice President
George Weston Limited
Chairman of the Board
Loblaw Companies Limited
and Vice Chairman of the Company

James A. Watson
President and Chief Executive Officer,
National Tea Co. and Vice President
of George Weston Limited

W. Struan Robertson
Partner, Borden & Elliot, Attorneys

Richard J. Currie
Senior Vice President
George Weston Limited
Executive Vice President
Loblaw Companies Limited

David A. Nichol
Senior Vice President
George Weston Limited
Executive Vice President
Loblaw Companies Limited

Officers

James A. Watson
President and Chief
Executive Officer

Valdyn W. Schulz
Executive Vice President

Willard J. Carlson
Vice President, Labor Relations

Alvin F. Cross
Vice President, Division Manager

Marvin E. Cross
Vice President, Produce

Sheldon V. Durtsche
Vice President, Control and Treasurer

Raymond O. Hegre
Vice President, Advertising

John R. Hogan
Vice President, Administration

Barney A. Kayne
Vice President, Division Manager

John Y. Loper
Vice President, Construction

Joel W. Raffenbeul
Vice President, Division Manager

Arthur F. Smith
Vice President, Meat Operations
and Processing

John R. Williams
Vice President, Division Manager

Bennett I. Berman
Secretary

Edmund J. Gorczyca
Assistant Secretary/Treasurer

John F. Meersman
Assistant Secretary/Treasurer

National Tea Co.

Executive Offices
9701 West Higgins Rd.
Rosemont, Illinois 60018

Divisional Offices and Warehouses

Chicago, Minneapolis,
Indianapolis, St. Louis,
New Orleans, Davenport, Denver

Transfer Agents

The First National Bank of Chicago
Chicago, Illinois

The Chase Manhattan Bank
New York, New York

Registrars

Continental Illinois National Bank
& Trust Company of Chicago
Chicago, Illinois

Chemical Bank
New York, New York

Transfer and Paying Agents

3½% Debentures
Chemical Bank
New York, New York

5% Debentures
Morgan Guaranty Trust Company
New York, New York

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